

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7282

BILL NUMBER: SB 413

NOTE PREPARED: Jan 6, 2004

BILL AMENDED:

SUBJECT: Tax Deduction for Sale of Indiana Businesses.

FIRST AUTHOR: Sen. Simpson

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill provides an Adjusted Gross Income Tax Deduction for income derived from the sale of an ownership interest in a high growth Indiana business held for at least one year by certain Indiana taxpayers. The bill also specifies that the maximum deduction amount is \$5,000,000.

Effective Date: January 1, 2005.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. The bill also requires the Indiana Department of Commerce to make determinations of whether a business is a “high growth company” for purposes of a qualifying for the deduction (see *Explanation of State Revenue* for definition of “high growth company.”) The expenses relating to these administrative demands presumably could be absorbed by DOR and IDOC given each agency’s existing budgets and resources.

Explanation of State Revenues: The bill would reduce state AGI Tax liabilities of individual and corporate taxpayers that sell an ownership interest in certain Indiana businesses. As data is unavailable regarding business transfers, the revenue loss due to this bill is indeterminable. However, the revenue loss could be significant depending upon the number and consideration of qualified sales that are completed each year. The maximum deduction for a single qualified sale is \$5 M. The revenue loss from such a deduction would equal \$170,000 for an individual filer and \$425,000 for a corporate filer. The fiscal impact of the deduction could potentially begin in FY 2005 if qualified sales are completed during the first half of 2005 and taxpayers adjust their quarterly estimated payments.

Background: The bill establishes an AGI Tax deduction for individual and corporate taxpayers that complete a sale of an “Indiana business” that is a “high growth company” (see definitions below), provided the taxpayer held the company for at least one year. To qualify for the deduction, a taxpayer must be a resident of Indiana or an Indiana business. The deduction is equal to the lesser of the AGI, or taxable income in the case of a corporation, that the taxpayer derived from the sale or \$5 M. A taxpayer is limited to one deduction per sale. For pass through entities, the deduction may be claimed by shareholders or partners in proportion to their distributive income from the pass through entity.

The bill defines Indiana business as a business that: (1) is domiciled in Indiana; and (2) pays a majority of its payroll (in dollar volume) to residents of Indiana. A high growth company is a business that is:

(1) primarily focused on commercialization of research and development, technology transfers, or the application of new technology, or is determined by the IDOC to meet other development objectives specified in the bill; and

(2) is not engaged in a business involving real estate, real estate development, insurance, professional services provided by an accountant, a lawyer, or a physician, retail sales (except involving the development or support of electronic commerce using the Internet), or gas and oil exploration.

The revenue from the AGI Tax on corporations is deposited in the state General Fund. The revenue from the AGI Tax on individuals is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Since this deduction is effective beginning in tax year 2005, the fiscal impact could potentially begin in FY 2005 if taxpayers adjust their quarterly estimated payments.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease Taxable Income of individual taxpayers, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue; Indiana Department of Commerce.

Local Agencies Affected: Counties with a local option income tax.

Information Sources:

Fiscal Analyst: Jim Landers, 317-232-9869.